

FISCAL NOTE

Bill #: SB0159 **Title:** State collection of centrally assessed property taxes

Primary Sponsor: John Cobb **Status:** As introduced

Sponsor signature	Date	David Ewer, Budget Director	Date
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Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$1,018,535	\$0
Revenue:		
General Fund	\$0	\$0
Net Impact on General Fund Balance:	(\$1,018,535)	\$0

<input type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input checked="" type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. Currently, property taxes, including the taxes assessed on centrally assessed property under 15-23-101 MCA “centrally assessed taxes”, are collected by the county treasurers. Each treasurer then transmits the state portion of the taxes to the department of revenue. The state portion consists of the 95 mill taxes that go to the general fund and the 6 mill university taxes that go to the state special revenue fund. Under the proposed law, the department would collect the centrally assessed taxes, deposit the state portion into the general fund and state special revenue fund, and transmit the county and local portion to the appropriate county treasurers. The county treasurers would then distribute these taxes to the appropriate taxing jurisdictions.
2. The proposed law would also transfer the responsibility for producing and mailing the tax bills for centrally assessed taxes from the county treasurers to the department. The proposed law would change neither the total amount of centrally assessed taxes nor the tax amounts distributed to any taxing jurisdiction.
3. Currently, the department has the responsibility for calculating all property tax bills (15-10-305 MCA); for certifying valuation, which includes the valuation of centrally assessed properties (15-10-202 MCA); for

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- apportioning the value of centrally assessed properties (15-23-105 MCA); and notifying the counties by July 1 of that valuation (15-23-106 MCA). The proposed law does not change these responsibilities.
4. The calculation of taxes (department's statutory responsibility) and the creation and mailing of tax bills (county treasurers' responsibility) are currently done on the counties' computer systems. The department's field staff and the county treasurers work cooperatively to accomplish these tasks.
 5. Currently, centrally assessed tax bills are mailed out by the county treasurers. Under the proposed law, the department would have this responsibility. Currently there is no mechanism in place for the department to produce and mail property tax bills, collect property tax payments, collect delinquent property taxes, and distribute property taxes to counties.
 6. The upgrades currently planned for the department's IRIS computer system do not include a property tax module for centrally assessed companies.
 7. It is assumed that the GenTax System could be upgraded to handle the tasks the department is required by this bill to assume. The vendor has provided a rough estimate of \$1 million for this upgrade if it is a stand-alone system. For the purposes of this fiscal note, it is assumed that this is the approach that would be taken to meet the timelines of the bill.
 8. The DOR budget proposal includes a request for a new valuation and assessment computer system. This request includes a requirement to compute and calculate taxes, including specials. It does not include the billing or collection of these taxes. The DOR budget proposal also includes a request for an upgrade of the IRIS system. If either of the currently planned IRIS upgrades gets funding approval, the centrally assessed upgrade could be incorporated with the other upgrade, and the incremental cost for the centrally assessed upgrade would be in the range of \$500,000 to \$750,000.
 9. The entire cost of the centrally assessed upgrade will occur in FY 2006.
 10. The GenTax System will not be ready to handle the tasks required by this bill in time for the November 2005 billing, so that department staff in Helena would be required to use other means to accomplish the tasks in the interim. It is assumed that the system would be ready for the May 2006 billing.
 11. The department would require an additional 0.25 FTE during FY 2006 to administer this bill until the new system comes on line.
 12. The operating expenses and equipment expenses in FY 2006, other than the \$1,000,000 for the computer system upgrade, are associated with this additional 0.25 FTE.

FISCAL IMPACT:

	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
FTE	0.25	0.00

Expenditures:

Personal Services	\$6,338	\$0
Operating Expenses	\$6,397	\$0
Equipment	<u>\$1,005,800</u>	<u>\$0</u>
TOTAL	\$1,018,535	\$0

Funding of Expenditures:

General Fund (01)	\$1,018,535	\$0
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Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$1,018,535)	\$0
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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

These are impossible to predict without clarification of the intent of the law.

LONG-RANGE IMPACTS:

If the state is required to assume more of the risk associated with appeals, the proposed law could have large long-range impacts on the state general fund and special revenue fund.

TECHNICAL NOTES:

1. It is unclear if the department is to collect the taxes property centrally assessed under 15-23-101, MCA, including the net proceeds of mines and the gross proceeds of coal mines.
2. It is unclear if the state would assume all risk associated with centrally assessed taxes, including the county and local portions as well as the state portion. If this is the case, the loss to the general fund and state special revenue fund associated with an adverse appeal would be several times as large as under current law.
3. Taxpayers are required to pay taxes by November 30 and May 31 (15-24-102 MCA). Some taxpayers do not pay their taxes until the due date. This bill would require the department to pay the county and local portion of centrally assessed taxes to the county treasurers on the same days as taxes are due. This quick a turnaround would be difficult for the department to comply with.
4. If the GenTax System is not ready at the time this bill is implemented, the department must find alternate means for accomplishing the tasks required by this bill. One alternative is to have department staff (central assessment and/or resource management and/or customer service) in Helena mail out the tax bills and collect and administer the taxes. Another possibility is that the bills could be mailed from the counties as they currently are. This would require changes to the county computer systems to instruct centrally assessed companies to pay their taxes to the department. The state would reimburse the counties for at least part of the cost of these changes.
5. The amount of taxes that the department pays to the counties needs clarification. Section 1, sub-section (3) provides that the department shall transmit to the treasurer of each county an amount of money that equals the total amount of property taxes and assessments “payable by owners of centrally assessed property in the county”. It is not clear if this includes the entire amount of taxes including the state portion, or only the portion associated with county and local taxing jurisdictions. It is unclear whether the department’s payment to the county should include the unpaid taxes if a taxpayer does not pay its taxes on time.
6. The statute 15-1-402(4)(b1) as revised would require that the state portion of taxes paid under protest be paid to the department. Payment of the county portion under protest needs clarification. In addition, clarifications to Note 5 could require further clarifications for taxes paid under protest.
7. The statute 15-1-402(4)(a) only requires funds be placed in the county protest fund if they are “paid under protest to a county or municipality.” As written, protested taxes are paid under protest to the department. Additionally, there is no requirement that the county be notified as to what taxes have been paid under protest.
8. The bill is unclear as to whether the county is responsible for reimbursing protested taxes if a taxpayer successfully appeals his property taxes. As written, it appears that the state is responsible for reimbursing both the state and county portions of successful tax protests. If that is the intent, it may be necessary to create a statutory appropriation for this payment because the county's portion is not a reimbursement but rather an expenditure of state funds.